Accounting Policies

General Principles

The Statement of Accounts summarises the County Council's transactions for the 2017/18 financial year and its position at the year-end of 31 March 2018. The County Council is required by the Accounts and Audit Regulations 2015 to prepare an annual Statement of Accounts in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code), supported by International Financial Reporting Standards (IFRS). The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The accounts have been prepared on a going concern basis, under the assumption that the Council will continue in existence for the foreseeable future.

Accounting for Agency Income

Accounting for Council Tax

The Worcestershire district councils, in their role as billing authorities, act as agents for the County Council, the precepting authority, collecting council tax on our behalf, with transactions and balances allocated between the districts and the County Council. The Comprehensive Income & Expenditure Statement includes the County Council's proportion of the net surplus or deficit and the Balance Sheet includes amounts to reflect the County Council's share of council tax debtors, overpayments and council tax creditors and monies owed or paid in advance in relation to payments from the district councils.

Accounting for National Non-Domestic Rates (NNDR)

The district councils collect business rate income on behalf of the County Council as well as amounts to be paid over to other precepting bodies and Central Government. The County Council maintains balances for NNDR arrears, impairment allowances, prepayments and overpayments in its underling accounting records. NNDR transactions and balances are allocated between the County Council, the District Councils and Central Government.

Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the authority.

Revenue from the provision of services is recognised when the authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the authority.

Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet.

Better Care Fund

There is a Section 75 joint agreement relating to the commissioning of health and social care services in Worcestershire, which includes The Better Care Fund. It is a joint budget arrangement between Worcestershire County Council, NHS Redditch and Bromsgrove Clinical Commissioning Group, NHS South Worcestershire Clinical Commissioning Group and NHS Wyre Forest Clinical Commissioning Group. Within the Section 75 agreement there are budgets controlled by the Clinical Commissioning Groups, budgets controlled by the County Council, pooled budgets (jointly controlled) and aligned budgets.

Where services are controlled by the County Council the income and expenditure is reflected within the Net Cost of Services in the Comprehensive Income and Expenditure Statement. This also includes the County Council's proportion of jointly controlled budgets. Where services are hosted by the County Council, but controlled by the Clinical Commissioning Groups, the income and expenditure is not reflected in the County Council's accounts.

Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the County Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the County Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts where applicable.

Employee Benefits

Benefits Payable during Employment

Short-term benefits are those due to be wholly settled within twelve months of the year-end, including wages and salaries, paid annual and sick leave for current employees. They are recognised as an expense in the year in which the service is provided to the County Council.

Termination Benefits

Termination Benefits are payable as a result of a decision by the County Council to terminate an employee's employment before the normal retirement date or of an employee's decision to accept voluntary redundancy. They are charged in the year in which they are paid or on an accruals basis at the earlier of when the County Council can no longer withdraw the offer of those benefits or recognises costs for a restructuring.

Where termination benefits involve the enhancement of retirement benefits, the amount charged is the amount payable by the County Council to the Pension Fund or pensioner in the year rather than the amount calculated according to the relevant accounting standards.

Post-Employment Benefits

Post-employment benefits include pensions and retirement lump sums. Employees of the County Council may be members of:

- The Local Government Pensions Scheme (a defined benefit scheme), administered by the County Council itself under national regulations. Subject to certain qualifying criteria, other employees are eligible to join the Local Government Pension Scheme;
- The Teachers' Pension Scheme (a defined contribution scheme), administered by the Teachers Pensions Agency on behalf of the Department for Education. This is an unfunded scheme and the pension cost charged to the accounts is the employer's contribution rate that has been set by the Department for Education on the basis of a notional fund; or
- The NHS Pension Scheme (a defined contribution scheme), administered by the Department for Health. This is an unfunded scheme administered by the NHS Superannuation scheme.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme. Employees who participate in the scheme earn benefits that will not be payable until retirement. The County Council has a commitment to make these payments and the accounts have been prepared to reflect the cost of providing retirement benefits in the accounting period in which they are earned.

Related finance costs and any other changes in the values of assets and liabilities are recognised in the accounting periods in which they arise, in accordance with International Accounting Standard 19 (IAS 19) and, on the advice of the Council's actuary, Mercer

Limited, Technical Accounting Standard R: Reporting Actuarial Information and Technical Accounting Standard D: Data, issued by the Institute and Faculty of Actuaries.

The liabilities of the Worcestershire County Council pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method, an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of earnings for current employees.

The assets of the Worcestershire County Council Pension Fund attributable to the County Council are included in the Balance Sheet at their fair value, which is the current bid price.

The change in the net pension's liability is analysed into the following components:

a) Service Cost comprising:

- current service cost - the increase in liabilities as a result of years of service earned in the current year,
- past service cost - the increase in liabilities arising from a scheme amendment or curtailment relating to service earned in prior periods,
- gains/losses on settlement - the result of actions to relieve the County Council of liabilities for all or part of the employee benefits provided under the plan.

b) Net interest cost is the change during the period in the net defined benefit liability (asset) that arises from the passage of time.

c) Re-measurements comprising:

- actuarial gains/losses (changes in the net pensions liability that arise because events have not followed assumptions in the last actuarial valuation or because the actuary has changed his assumptions)
- return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset),
- Any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

In relation to retirement benefits the General Fund is charged with the amount payable by the Council to the Pension Fund or directly to pensioners in the year, not the amount calculated by the relevant accounting standards. In the Movement in Reserves Statement there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the Pension Fund and pensioners and any amounts payable to the fund but unpaid at the year-end. The negative balance on the Pensions Reserve measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows and not as benefits are earned by employees.

Events after the Balance Sheet Date

Events after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is approved. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but, where a category of events would have a material effect, disclosure is made of the nature of the events and their estimated financial effect.

Fair Value Measurement

Assets and liabilities are measured in accordance with IFRS 13 Fair Value Measurement and the relevant Code provisions. Fair value is the price that would be received to sell an asset or paid to transfer a liability at measurement date. The County Council either uses appropriate valuation techniques or external valuers, in accordance with fair value measurement guidance.

Operational property, plant and equipment focus on valuing their service potential and operating capacity used to deliver goods and services. Only where property, plant and equipment are classified as surplus are they required to be measured at fair value, representing a measure of financial capacity and the opportunity cost of holding such assets.

Fair value measurements follow the IFRS13 hierarchy, which categorises the inputs to valuation techniques:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date
- Level 2 inputs – inputs other than quoted prices included with Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 inputs – unobservable inputs for the asset or liability

Financial Instruments

Financial instruments are contracts that give rise to a financial asset or financial liability and are represented by investments, borrowings, debtors, creditors and cash equivalents. They are recognised on the Balance Sheet when the County Council becomes party to the contractual provisions of the Financial Instrument and are carried at amortised cost.

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet once there is a contractual obligation and are initially measured at fair value and carried at amortised cost.

Loans and receivables are recognised on the Balance Sheet when the County Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and subsequently measured at their amortised costs.

Financial Assets

Financial assets are classified as either:

- available for sale assets - those with a quoted market price and/or no fixed or determinable payments; or
- loans and receivables - assets that have fixed or determinable payments but are not quoted in an active market.

Fair value of assets and liabilities

Financial liabilities and financial assets are carried in the Balance Sheet at amortised cost. Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. The fair value of loans has been assessed at current market conditions by calculating the present value of the cash flows that take place over the remaining life of the loans.

The fair value calculations have been provided by the Council's Treasury Management advisors for PWLB loans, LOBO loans, PFI Liabilities, shares in unlisted companies and loans and receivables.

Government Grants and Third Party Contributions

Government grants and third party contributions and donations are recognised as due to the County Council when there is reasonable assurance that:

- the County Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contributions have been satisfied. Grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors or receipts in advance. When conditions are satisfied, the grant or contribution is credited to the relevant service line or to Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and capital grants) in the Comprehensive Income and Expenditure Statement.

Joint Arrangements

Joint Arrangements are activities undertaken by the County Council in conjunction with other entities to jointly control an asset. Joint control involves the contractually agreed sharing of control, such that decisions about the activities for the arrangement are given unanimous consent from all parties. Arrangements subject to joint control are classified as either a joint

venture, under which we have rights to share net assets, or a joint operation, under which we have rights to particular assets, and obligation for particular liabilities.

Leases

Lease arrangements entered into by the County Council are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment, including PFI contracts, are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The County Council as a lessee – Finance leases

Finance leases are recognised on the County Council's Balance Sheet at the commencement of the lease and measured at fair value or the present value of the minimum lease payments if this is lower. The asset is matched by a liability for the obligation to pay the lessor. Lease payments are apportioned between:

- a charge for the acquisition of the interest in the asset which is applied to write down the lease liability, and
- a finance charge to the Comprehensive Income and Expenditure Statement.

The County Council as a lessee – Operating leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense. Charges are made on a straight line basis over the life of the lease.

The County Council as a lessor – Finance leases

Where an asset is leased by the County Council to a third party as a finance lease the asset is written out of the Balance Sheet as a disposal, with the carrying amount of the asset charged the Comprehensive Income and Expenditure Statement. The County Council only has academy school asset transfers which fall into these category and these do not generate any rental income.

The County Council as a lessor – Operating leases

Where an asset is leased by the County Council to a third party as an operating lease the asset is retained in the Balance Sheet. Rental income is credited to the Comprehensive Income and Expenditure Statement on a straight line basis over the life of the lease.

Local Authority Schools

The balance of control for local authority maintained schools lies with the local authority and the related assets, liabilities, reserves and cash flows are recognised in the County Council's financial statements.

PFI schools are considered to be controlled by the County Council through the PFI arrangements and are recognised on the Balance Sheet. Voluntary Aided, Voluntary Controlled schools and Trust schools are owned by the Diocese, Church of England or a separate Trust and there are no formal rights to use the assets through licence arrangements passed to the school or Governing Bodies; as a result these schools are not recognised on the Balance Sheet.

Minimum Revenue Provision (MRP)

MRP is a charge to the Comprehensive Income and Expenditure Accounts for the repayment of external borrowing required to finance capital expenditure in accordance with the Local Authorities (Capital Financing and Accounting) (England) (Amendment) Regulations 2008. The broad aim of the policy is to ensure that MRP is charged over a period that is broadly commensurate with the period over which the County Council receives benefit from the asset. The charge is calculated using the asset life method on an annuity basis for either:

- The average life of all assets at 31 March 2008 for pre-2008 debts, and
- The average asset class life for post-2008 debts, using schools, highways and other assets as our key categories.

In 2016/17 Council approval was given to align pre 2008 long-term borrowing to the post 2008 method of matching the debt repayment to the average asset lives.

Overheads and Support Services

The costs of overheads and support services are charged to those services that benefit from the supply or service in accordance with the Code. The total absorption costing principle is used where the full cost of overheads and support services is shared between users in proportion to the benefits received.

Private Finance Initiative (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide services passes to the PFI contractor. As the County Council is deemed to control the services that are provided under such schemes and as the ownership of the property, plant and equipment will pass to the County Council at the end of the contracts for no additional charge, the County Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the County Council.

Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year, are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis in the accounts, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged to the Comprehensive Income and Expenditure Statement when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located

The cost of assets acquired other than by purchase is at fair value, unless the acquisition does not have commercial substance (e.g. via exchange) where the cost of the acquisition is the carrying amount of the asset given up by the Council.

Properties are revalued at least every five years and in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation Professional Standards 2014 UK Edition and are valued by an external suitably qualified valuer. A category of asset is chosen each financial year and revalued in entirety. Further revaluations are also carried out where there are known to have been material changes.

Where capital expenditure projects are practically completed in the financial year, the asset to which they relate will be revalued as long as the expenditure represents greater than 15% of the asset's opening net book value or is greater than £100,000.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Where there is no market-based evidence of fair value because of the specialist nature of the asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is subsequently reversed, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (e.g. freehold land and certain Community Assets) and assets that are not yet available for use (e.g. assets under construction). Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. An asset is not depreciated until it is available for use.

Depreciation is calculated on the following basis:

- depreciation is charged on a straight-line basis over the remaining useful life of the assets as estimated by the valuer;
- newly acquired assets are depreciated from the mid-point of the year.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on the historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and transfers

Amounts received for disposals in excess of £10,000 are categorised as capital receipts and used for new capital investment or set aside to reduce the County Council's underlying need to borrow (the Capital Financing Requirement).

When a school converts to an Academy the transfer of the asset is for nil consideration.

Reserves

The County Council has set aside specific amounts as reserves for future policy purposes or to cover contingencies.

Reserves are reported in two categories:

Usable Reserves

Those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve may only be used to fund capital expenditure or repay debt).

Unusable Reserves

Unusable Reserves are those reserves that the Council is not able to use to provide services. This category of reserves includes those that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets were sold; and the reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the County Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

Revenue Recognition

Revenue is recognised when the following conditions have been satisfied:

a) the amount of revenue can be measured reliably and
b) it is probable that the economic benefits or service potential associated with the transaction will flow to the County Council

There is no difference between the delivery and payment dates for non-contractual, non-exchange transactions, i.e. revenue relating to council tax and general rates, and therefore these transactions shall be measured at their full amount receivable.

Revenue from the sale of goods is recognised when the County Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. Accruals are raised for expenditure and income due in year but not made or received. Accruals are not made for amounts of less than £5,000, unless the manager feels it would improve the quality of information

Value Added Tax

Value Added Tax (VAT) payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors – to be included if required

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the County Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.